

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of Mundy	County Genesee
Audit Date 12/31/05	Opinion Date 3/10/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

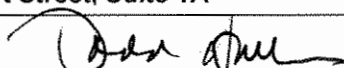
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Plante & Moran, PLLC			
Street Address 111 East Court Street, Suite 1A	City Flint	State MI	ZIP 48502
Accountant Signature 		Date 6/06/06	

Financial Statements
Charter Township of Mundy
Genesee County, Michigan
December 31, 2005

**Charter Township of Mundy
Financial Statements
For the Fiscal Year Ended December 31, 2005**

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Charter Township of Mundy
Financial Statements
For the Fiscal Year Ended December 31, 2005

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**Charter Township of Mundy
Genesee County, Michigan
List of Elected, Civil, and Appointed Officials
December 31, 2005**

Karen L. Bond, Supervisor

Rick W. Frost, Clerk

Dennis B. Owens, Treasurer

Karen E. Gawron, Trustee

Tonya L. Ketzler, Trustee

Robert E. Neumann, Trustee

Joe Oskey, Trustee

Independent Auditors' Report

Members of the Board
Charter Township of Mundy, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy, as of and for the year then ended December 31, 2005, which collectively comprise the Charter Township of Mundy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Mundy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Mundy, Michigan at December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Mundy's basic financial statements. The accompanying introductory section and other supplemental information, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statement has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

PLANTE & MORAN, PLLC

March 10, 2006

Management's Discussion and Analysis

Charter Township of Mundy Management's Discussion and Analysis

This section of the Charter Township of Mundy's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year that ended on December 31, 2005. Please read it in conjunction with the Township's financial statements, which follow this section.

Financial Highlights

- The Township's Total Net Assets are \$23.8 million. Unrestricted net assets were \$11.8 million.
- During the year, the Township's governmental expenses were \$1,833,246 greater than the \$3,014,521 generated in taxes and other revenues for governmental programs.
- General fund expenditures exceeded revenues by \$1,373,491, mainly due to lawsuit settlements of \$897,500 in the current year.
- General fund expenditures exceeded final budgeted amounts by \$949,055 mainly due to the lawsuit settlements in 2005, which were settled after the year end but accrued as a payable at December 31, 2005.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide statements.
 - * The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
 - * Proprietary fund statements offer short- and long-term financial information about the water and sewer system that the government operates like a business.
 - * Fiduciary fund statements provide information about the financial relationships where the Township acts as an agent, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Table 1 summarizes the major features of the Township's financial statements, including the portion of the Township government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 Major Features of Charter Township of Mundy's
Government-wide and Fund Financial Statements
Fund Statements**

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Township government (except fiduciary funds)	The activities of the Township that are not proprietary or fiduciary, such as police, fire, and parks	Activities the Township operates similar to private businesses: the water and sewer system	Instances in which the Township is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	Agency funds statement of assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the Township's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	Increases and decreases to assets and liabilities

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets – the difference between the Township's assets and liabilities – is one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township you need to consider additional non-financial factors such as changes in the Township's property tax base and the condition of the Township's roads.

The government-wide financial statements of the Township are divided into two categories:

- Governmental activities – Most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, franchise fee, state revenue sharing, and investment earnings finance most of these activities.
- Business-type activities – The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer system is the only business-type activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds – not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

- Governmental funds – Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements. The Township has two governmental funds, the General Fund and the Debt Service Fund. The non major debt service fund was closed at December 31, 2005 by transferring its remaining assets to the water and sewer enterprise fund.
- Proprietary funds – Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The Township has only one proprietary fund, the Water and Sewer Fund.

- In fact, the Township's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- Fiduciary funds – The Township is the fiduciary, for assets held on the behalf of others. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township's fiduciary activities are reported in a separate agency fund balance sheet. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

Financial Analysis of the Township as a Whole

Net assets

The Township's governmental activities net assets are \$8.7 million. The unrestricted governmental activities net assets are \$4.2 million. Business-type activities net assets are \$15.2 million with \$7.5 million being invested in capital assets net of related debt.

Governmental Activities

The Township's General Fund revenues were \$4.5 million this year. Property taxes were \$2.0 million or 44.8% of the total revenues. Federal grants and State revenue sharing made up \$.9 million or 19.7% of the total revenue. The remaining 35.5% of General Fund revenues are comprised mostly of miscellaneous revenues, Charges for Services and Interest Revenue.

The Township does not have any long-term or bonded debt related to governmental activities.

Business-Type Activities

Operating revenues of the Township's business-type activities increased \$123,786 from the prior year of \$1,813,939 to the current year total of \$1,937,725. Operating expenses increased by \$103,935.

Charter Township of Mundy's Net Assets (Thousands)

	Government Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 7,902	\$ 8,834	\$ 7,945	\$ 6,670	\$ 15,847	\$ 15,504
Capital assets	3,773	4,022	7,768	8,117	11,541	12,139
Total assets	\$ 11,675	\$ 12,856	\$ 15,713	\$ 14,787	\$ 27,388	\$ 27,643
Other liabilities	\$ 3,006	\$ 2,354	\$ 266	\$ 261	\$ 3,272	\$ 2,615
Long-term liabilities outstanding	-	-	239	265	239	265
Total liabilities	\$ 3,006	\$ 2,354	\$ 505	\$ 526	\$ 3,511	\$ 2,880
Net assets:						
Invested in capital assets, net of related debt	\$ 3,773	\$ 4,019	\$ 7,529	\$ 7,343	\$ 11,302	\$ 11,362
Restricted	692	831	-	-	692	831
Unrestricted	4,204	5,652	7,679	6,918	11,883	12,570
Total net assets	\$ 8,669	\$ 10,502	\$ 15,208	\$ 14,261	\$ 23,877	\$ 24,763

Charter Township of Mundy's Changes in Net Assets (Thousands)

	Government Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,292	\$ 1,170	\$ 1,938	\$ 1,814	\$ 3,230	\$ 2,984
Operating grants and contributions	14	73	-	-	14	73
Capital grants and contributions	-	72	588	1,406	588	1,478
General revenues:						
Property taxes	2,032	2,038	-	-	2,032	2,038
State shared revenue	895	902	-	-	895	902
Other	304	670	168	54	472	724
Total revenues	<u>4,537</u>	<u>4,925</u>	<u>2,694</u>	<u>3,274</u>	<u>7,231</u>	<u>8,199</u>
Expenses:						
General government	2,124	1,715	-	-	2,124	1,715
Public safety	2,922	2,788	-	-	2,922	2,788
Public service	1,107	726	-	-	1,107	726
Water and sewer	-	-	1,964	1,860	1,964	1,860
Total expenses	<u>6,153</u>	<u>5,229</u>	<u>1,964</u>	<u>1,860</u>	<u>8,117</u>	<u>7,089</u>
Increase (decrease) in net assets before transfers	(1,616)	(304)	730	1,414	(886)	1,110
Transfers	(217)	-	217	-	-	-
Increase (decrease) in net assets	(1,833)	(304)	947	1,414	(886)	1,110
Net assets – 1/1/2005	<u>10,502</u>	<u>10,806</u>	<u>14,261</u>	<u>12,847</u>	<u>24,763</u>	<u>23,653</u>
Net assets – 12/31/2005	<u>\$ 8,669</u>	<u>\$ 10,502</u>	<u>\$ 15,208</u>	<u>\$ 14,261</u>	<u>\$ 23,877</u>	<u>\$ 24,763</u>

Financial Analysis of the Township's Funds

As the Township completed the year, its General Fund reported a fund balance of \$4.9 million. This was a decrease of \$1.3 million from the prior year.

Capital Assets

At the end of 2005, the Township had invested \$11.3 million in capital assets, net of related debt. This amount complies with methods established by the Governmental Accounting Standards Board (GASB) for the first year of implementation of GASB Statement 34. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having townships gather together all of the required information, GASB has allowed smaller units of government like Charter Township of Mundy to report infrastructure assets on a prospective basis after adopting the new reporting standard.

Charter Township of Mundy Capital Assets
(thousands - net of depreciation)

	Government Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 382	\$ 335	\$ -	\$ -	\$ 382	\$ 335
Buildings	2,768	2,891	-	-	2,768	2,891
Machinery and equipment	543	711	-	-	543	711
Infrastructure	80	85	8,117	7,768	8,197	7,853
Total	<u>\$ 3,773</u>	<u>\$ 4,022</u>	<u>\$ 8,117</u>	<u>\$ 7,768</u>	<u>\$ 11,890</u>	<u>\$ 11,790</u>

Long-term Debt

At the end of the current fiscal year, Charter Township of Mundy had total debt outstanding of \$238,929. The balance at December 31, 2004 was \$264,679. The debt consists solely of construction advance liabilities for monies advanced by developers for construction of water and sewer lines.

Limitations on Debt

The State limits the amount of general obligation debt the Township can issue to 10% of the assessed value of all taxable property within the Township's corporate limits. The Township does not have any debt subject to the limitation at December 31, 2005.

Contacting the Township's Financial Administration

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Charter Township of Mundy Clerk's Department.

Basic Financial Statements

Government-wide Financial Statements

Charter Township of Mundy
Statement of Net Assets
December 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and equivalents	\$ 4,599,958	\$ 7,105,042	\$ 11,705,000
Investments	97,288	97,000	194,288
Receivables:			
Taxes	2,088,443	-	2,088,443
Special assessments	558,551	238,789	797,340
Accounts	190,360	214,512	404,872
Unbilled utility service income	-	328,816	328,816
Prepaid insurance	27,391	-	27,391
Internal balances	38,458	(38,458)	-
Due from other governments	301,468	-	301,468
Capital assets not being depreciated	382,236	-	382,236
Capital assets (net of accumulated depreciation)	3,390,813	7,767,534	11,158,347
Total assets	11,674,966	15,713,235	27,388,201
Liabilities			
Accounts payable	662,884	7,866	670,750
Accrued liabilities	139,953	-	139,953
Deferred revenue	2,203,044	-	2,203,044
Due to other governments	-	258,689	258,689
Noncurrent liabilities-construction advances:			
Due in more than one year	-	238,929	238,929
Total liabilities	3,005,881	505,484	3,511,365
Net Assets			
Invested in capital assets, net of related debt	3,773,049	7,528,605	11,301,654
Restricted:			
Metro Act	27,585	-	27,585
Garbage collection	453,587	-	453,587
Building department	210,542	-	210,542
Unrestricted	4,204,322	7,679,146	11,883,468
Total net assets	\$ 8,669,085	\$ 15,207,751	\$ 23,876,836

See notes to financial statements.

**Charter Township of Flint
Statement of Activities
For the Year Ended December 31, 2005**

Functions\Programs	Program revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants
Primary government:				
Governmental activities:				
General government	\$2,123,890	\$ 504,015	\$ -	\$ -
Public safety	2,921,717	218,092	13,753	-
Public service	1,107,530	569,510	-	-
Total governmental activities	6,153,137	1,291,617	13,753	-
Business-type activities -				
Water and sewer	1,964,294	1,937,725	-	588,075
Total business-type activities	1,964,294	1,937,725	-	588,075
Total primary government	\$8,117,431	\$ 3,229,342	\$ 13,753	\$ 588,075
General revenues:				
Property taxes				
State shared revenue				
Unrestricted investment earnings				
Franchise fees and other				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning of year, as restated				
Net assets - end of year				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (1,619,875)	\$ -	\$ (1,619,875)
(2,689,872)	-	(2,689,872)
(538,020)	-	(538,020)
(4,847,767)	-	(4,847,767)
-	561,506	561,506
-	561,506	561,506
(4,847,767)	561,506	(4,286,261)
2,032,786	-	2,032,786
895,087	-	895,087
168,997	168,091	337,088
134,602	-	134,602
(216,951)	216,951	-
3,014,521	385,042	3,399,563
(1,833,246)	946,548	(886,698)
10,502,331	14,261,203	24,763,534
\$ 8,669,085	\$ 15,207,751	\$ 23,876,836

Fund Financial Statements

Charter Township of Mundy
Balance Sheet
Governmental Funds
December 31, 2005

	General Fund	Non-major Debt Service	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 4,599,958	\$ -	\$ 4,599,958
Investments	97,288	-	97,288
Receivables:			
Taxes	2,088,443	-	2,088,443
Special assessments	558,551	-	558,551
Accounts	190,360	-	190,360
Prepaid insurance	27,391	-	27,391
Due from other funds	42,154	-	42,154
Due from other governments	301,468	-	301,468
	<hr/>		<hr/>
Total assets	\$ 7,905,613	\$ - 0 -	\$ 7,905,613
	<hr/>		<hr/>
Liabilities			
Accounts payable	\$ 662,884	\$ -	\$ 662,884
Accrued liabilities	139,953	-	139,953
Due to other funds	3,696	-	3,696
Deferred revenue	2,203,044	-	2,203,044
	<hr/>		<hr/>
Total liabilities	3,009,577	-	3,009,577
	<hr/>		<hr/>
Fund Balances			
Reserved for:			
Prepays	27,391	-	27,391
Garbage collection	453,587	-	453,587
Building department	210,542	-	210,542
Metro Act	27,585	-	27,585
Designated for subsequent years expenditures	383,879	-	383,879
Unreserved, undesignated	3,793,052	-	3,793,052
	<hr/>		<hr/>
Total fund balances	4,896,036	-	4,896,036
	<hr/>		<hr/>
Total liabilities and fund balances	\$ 7,905,613	\$ - 0 -	\$ 7,905,613
	<hr/>		<hr/>

See notes to financial statements.

**Charter Township of Mundy
Reconciliation of the Fund Balance as Reported in the
Governmental Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2005**

Total Governmental Funds fund balance as reported in the Governmental Funds Balance Sheet	\$ 4,896,036
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	<u>3,773,049</u>
Net Assets - Governmental Activities	<u><u>\$ 8,669,085</u></u>

See notes to financial statements.

Charter Township of Mundy
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Non-major Debt Service	Total Governmental Funds
Revenues:			
Taxes	\$ 2,032,651	\$ 134	\$ 2,032,785
Licenses, permits, and fees	212,577	-	212,577
Intergovernmental:			
Federal	3,120	-	3,120
State	895,087	-	895,087
Charges for services	807,694	-	807,694
Interest	166,373	2,624	168,997
Fines and forfeitures	10,877	-	10,877
Miscellaneous	409,975	-	409,975
Total revenues	4,538,354	2,758	4,541,112
Expenditures:			
Current:			
General government:			
Township hall	1,563,828	-	1,563,828
Tax account	343,004	-	343,004
Other general government	181,311	-	181,311
Public safety:			
Building department	119,135	-	119,135
Police department	2,010,319	-	2,010,319
Fire department	591,180	-	591,180
Public service	1,103,068	-	1,103,068
Total expenditures	5,911,845	-	5,911,845
Excess of revenues over (under) expenditures	(1,373,491)	2,758	(1,370,733)
Other Financing Uses:			
Transfers out	-	(216,951)	(216,951)
Net change in fund balances	(1,373,491)	(214,193)	(1,587,684)
Fund balances - beginning of year	6,269,527	214,193	6,483,720
Fund balances - end of year	\$ 4,896,036	\$ - 0 -	\$ 4,896,036

See notes to financial statements.

**Charter Township of Mundy
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2005**

Amounts reported for governmental activities in the statement of activities (pages 12 and 13) are different because:

Net Change in fund balances - total governmental funds (page 16)	\$ (1,587,684)
--	----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the assets are capitalized and the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current year.	(248,538)
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The repayment of the principal on long term capital leases is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long - term debt).	<u>2,976</u>
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Change in net assets of governmental activities	<u><u>\$ (1,833,246)</u></u>
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See notes to financial statements.

**Charter Township of Mundy
Statement of Net Assets
Proprietary Fund
Water and Sewer Enterprise Fund
December 31, 2005**

Assets

Current assets:

Cash and cash equivalents	\$ 7,105,042
Investments	97,000
Receivables:	
Accounts	214,512
Special assessment receivable	238,789
Unbilled utility service income	328,816
Due from other funds	<u>3,696</u>
Total current assets	7,987,855

Non-current assets:

Capital assets, net of accumulated depreciation	<u>7,767,534</u>
Total assets	<u>15,755,389</u>

Liabilities

Current liabilities:

Accounts payable	7,866
Due to other governments	258,689
Due to other funds	<u>42,154</u>
Total current liabilities	308,709

Non-current liabilities:

Long term liability - construction advances	<u>238,929</u>
Total liabilities	<u>547,638</u>

Net assets

Invested in capital assets, net of related debt	7,528,605
Unrestricted	<u>7,679,146</u>
Total net assets	<u>\$ 15,207,751</u>

See notes to financial statements.

Charter Township of Mundy
Statement of Revenues, Expenses, and Changes Fund Net Assets
Proprietary Fund
Water and Sewer Enterprise Fund
For the Year Ended December 31, 2005

Operating revenues:

Charges for services	\$ 1,894,209
Late charges	39,476
Inspection and contractors' fees	4,040
	<hr/>
Total operating revenues	1,937,725
	<hr/>

Operating expenses:

Payroll	40,628
Depreciation	349,693
Maintenance and repair	82,989
Sewer treatment charges	854,389
Water purchases	616,643
Miscellaneous	12,539
Billing service charges	7,413
	<hr/>
Total operating expenses	1,964,294
	<hr/>
Operating loss	(26,569)
	<hr/>

Non-operating revenues (expenses):

Interest on investments	167,408
Interest on tap-in fees	683
	<hr/>
Total non-operating revenues	168,091
	<hr/>

Income - before contributions and transfers	141,522
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Capital contributions - tap in fees	588,075
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Transfers from other funds	216,951
	<hr/>

Change in net assets	946,548
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Net assets - beginning of year, as restated	14,261,203
	<hr/>

Net assets - end of year	\$ 15,207,751
	<hr/> <hr/>

See notes to financial statements.

**Charter Township of Mundy
Statement of Cash Flows
Proprietary Fund
Water and Sewer Enterprise Fund
For the Year Ended December 31, 2005**

Cash flows from operating activities:

Receipts from customers	\$ 1,929,726
Payments to suppliers for goods and services	(1,568,996)
Payments to employees	(24,098)
	<u>336,632</u>
Net cash provided by operating activities	<u>336,632</u>

Cash flows from capital and related financing activities:

Payment on contractor advances	(25,750)
Transfer from debt service fund	216,951
Capital contributions - customers	626,798
	<u>817,999</u>
Net cash provided by capital and related financing activities	<u>817,999</u>

Cash flows from investing activities:

Interest on investments	167,408
Purchase of investments	(97,000)
Interest on tap-ins	683
	<u>71,091</u>
Net cash provided by investing activities	<u>71,091</u>

Net increase in cash and cash equivalents 1,225,722

Cash and cash equivalents - beginning of year 5,879,320

Cash and cash equivalents - end of year \$ 7,105,042

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (26,569)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	349,693
Changes in assets and liabilities:	
Increase in receivables	(36,203)
Decrease in due from other funds	28,204
Decrease in due to other governments	(2,090)
Increase in accounts payable	7,067
Increase in due to other funds	16,530
	<u>16,530</u>

Net cash provided by operating activities \$ 336,632

See notes to financial statements.

**Charter Township of Mundy
Fiduciary Fund
Tax Collection Agency Fund
Statement of Assets and Liabilities
December 31, 2005**

Assets

Cash and cash equivalents	<u>\$ 3,919,737</u>
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Liabilities

Due to other governments	<u>\$ 3,919,737</u>
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See notes to financial statements.

Notes to Basic Financial Statements

**Charter Township of Mundy
Notes to Financial Statements
December 31, 2005**

I. Summary of significant accounting policies

A. Reporting entity:

The Charter Township of Mundy, Michigan (Township), became a Charter Township April 1, 1978. The Township provides the following services as authorized by law: public safety (police and fire), highways and streets, sanitation, public improvements, planning and zoning, and general administrative services.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Township does not have any component units at December 31, 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* if it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criteria: state share revenue.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary fund:

Sewer and water fund – a single fund is maintained for the operations of the water distribution system and the sewage pumping and collection system.

Additionally, the Township reports the following fiduciary fund:

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency Funds are reported as fiduciary funds and are not included in the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The proprietary principal operating revenues of our proprietary funds relates to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap-in fees intended to cover current costs (e.g. labor and materials to hook up new customers) as operating revenues. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Property tax revenue:

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed. However, the revenues generated by the tax levy cannot be appropriated until the budget year following the levy date. The asset created by the levy on December 1 is recorded in the appropriate fund as current taxes receivable. In addition, a deferred revenue offset account is recorded recognizing that the taxes receivable and cash collected before year end on the December 1 roll are not available for current appropriation. Tax collections made from December 1 through December 31 in the current tax agency fund and not distributed prior to year end are recorded as due to other governments. These monies are subsequently distributed to the appropriate governments in the ensuing budget year. Revenues generated by the levy of a 1% property tax administrative fee are recognized on a cash basis in the General Fund.

The Township is permitted by charter to levy up to \$5 (5 mills) per \$1,000 of state equalized value for general governmental services. For the year ended December 31, 2005, the Township levied 4.564 mills per \$1,000 of taxable value for general operations. The Township is permitted to levy unlimited amounts for payment of existing general long-term debt obligations.

Taxable and assessed values at December 31, 2005 are as follows:

	<u>Assessed Value</u>	<u>Taxable Value</u>
Real property	\$589,587,574	\$458,821,655
Personal property	22,994,200	22,994,200
Qualified property	1,206,000	1,200,414
Total	<u>\$613,787,774</u>	<u>\$483,016,269</u>

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

2. Receivables and payables

In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year is referred to as “advances to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

All customer and property tax receivables are shown net of an allowance for uncollectible amounts.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, equipment, and infrastructure are depreciated using the straight line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Water and Sewer System	50 years
Roads	20 years
Building and improvements	40 years
Vehicles	5 years
Office Equipment	3, 5, or 7 years

5. Compensated absences (vacation and sick leave)

Employees' unused sick and personal time is paid out in cash at the end of the year. Vacation time may not be carried over. Any remaining vacation time at the end of the year is forfeited.

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

I. Summary of significant accounting policies - (continued)

D. Assets, liabilities, and net assets or equity – (continued)

6. Long-term obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

9. Comparative data

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation. Comparative data is not included in the Township's financial statements.

II. Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation." The details of this \$(248,538) difference are as follows:

Capital outlay	\$ 142,400
Depreciation expense	<u>(390,938)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ (248,538)</u></u>

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

III. Stewardship, compliance, and accountability

A. Budgetary information

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to January 1, a proposed operating budget for the fiscal year commencing January 1 is presented. The operating budget includes proposed expenditures and the means of financing them for the General Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget for the General Fund is legally enacted on a "total fund" basis through passage of a resolution in accordance with Public Act 621 of the State of Michigan.
4. Formal budgetary integration is employed as a management control device during the year for each budgeted fund. The budgets are adopted on a basis consistent with generally accepted accounting principles.
5. Budget appropriations lapse at year end except for approved contracts which are appropriated on a contract (grant) length basis. Encumbrances are not included as expenditures at year end. The amount of encumbrances outstanding at December 31, 2005, is not known.
6. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund is presented on the budgetary basis to provide a comparison of actual results with the budget. No budget was adopted for the Debt Service Fund, so that fund is not included in the budget to actual presentation.

B. Excess of expenditures over appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the General Fund by the following amount:

	Amended <u>Budget</u>	<u>Actual</u>	Actual Over <u>Budget</u>
General Fund	\$4,962,790	\$5,911,845	\$949,055

C. Construction code fees

The Township oversees building construction, in accordance with the State Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that the collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The summary surplus or shortfall generated since January 2000 is as follows:

Reserved fund balance – beginning of year	\$136,423
Construction permit revenue	\$193,254
Building department expenditures	<u>119,135</u>
Current year revenue over (under) expenditures	<u>74,119</u>
Reserved fund balance – end of year	<u>\$210,542</u>

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

IV. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated Bank One and Multi-Bank Securities, Inc. for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$1,543,839 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Repurchase agreements	\$11,469,560	Counterparty

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

IV. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy minimizes credit risk by investing only in the safer types of securities, pre-qualifying financial institutions, brokers/dealers, mediators, and advisors with whom the Township will do business. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$197,576	AAA	Moody's

B. Receivables

Receivables as of December 31, 2005 for the Township's individual major and nonmajor funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Sewer and Water</u>	<u>Total</u>
Receivables:			
Taxes	\$2,088,443	\$ -	\$2,088,443
Accounts	190,360	214,512	404,872
Unbilled utility charges	-	328,816	328,816
Special assessments	558,551	238,789	797,340
Intergovernmental	301,468	-	301,468
Gross receivables	3,138,822	782,117	3,920,939
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$3,138,822</u>	<u>\$782,117</u>	<u>\$3,920,939</u>

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

IV. Detailed notes on all funds – (continued)

C. Capital assets

Capital asset activity for the year ended December 31, 2005 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 334,736	\$ 47,500	\$ -	\$ 382,236
Total capital assets, not being depreciated	334,736	47,500	-	382,236
Capital assets, being depreciated:				
Buildings	4,103,208	-	-	4,103,208
Machinery and equipment	3,224,333	94,900		3,319,233
Infrastructure	89,236	-	-	89,236
Total capital assets being depreciated	7,416,777	94,900	-	7,511,677
Less accumulated depreciation for:				
Buildings	1,212,668	122,596	-	1,335,264
Machinery and equipment	2,512,796	263,880	-	2,776,676
Infrastructure	4,462	4,462	-	8,924
Total accumulated depreciation	3,729,926	390,938	-	4,120,864
Total capital assets, being depreciated, net	3,686,851	(296,038)	-	3,390,813
Governmental activities capital assets, net	<u>\$ 4,021,587</u>	<u>\$ (248,538)</u>	<u>\$ -0-</u>	<u>\$ 3,773,049</u>
Business-type activities:				
Capital assets, being depreciated:				
Water and sewer mains	\$17,484,668	\$ -	\$ -	\$17,484,668
Less accumulated depreciation for:				
Water and sewer mains	9,367,441	349,693	-	9,717,134
Business-type activities capital assets, net	<u>\$ 8,117,227</u>	<u>\$ (349,693)</u>	<u>\$ -0-</u>	<u>\$ 7,767,534</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

General government	\$102,883
Public safety	283,593
Public service	4,462

Total depreciation expense – governmental activities \$390,938

Business-type activities:

Water and sewer	<u>\$349,693</u>
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Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

IV. Detailed notes on all funds – (continued)

D. Interfund receivables, payables, and transfers

The composition of interfund balances is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer and Water Fund	\$ 42,154
Sewer and Water Fund	General Fund	<u>3,696</u>
		<u>\$ 45,850</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
Debt Service Fund	Sewer and Water Fund	<u>\$216,951</u>

The transfers from the debt service fund to the sewer and water fund represents the movement of resources remaining after the sewer debt was paid in full.

E. Leases

Operating leases:

The Township leases equipment under noncancelable operating leases. Total costs for such leases were \$3,893 for the current year. The future minimum payments for these leases are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2006	\$ 3,920
2007	3,920
2008	3,920
2009	<u>2,800</u>
	<u>\$ 14,560</u>

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

IV. Detailed notes on all funds – (continued)

F. Tap-in fees advanced from developers

The Township has a long-term construction advance liability for monies advanced by developers for construction of water and sewer lines benefiting their properties. A liability in the amount of \$747,824 exists at December 31, 2005. The tap-in fee, which would normally be charged to the contractor for projects serviced, was applied to the advance. Also, 100% of tap-ins to other land owners in the developer's area will be applied against this amount advanced and paid back to the developer. Payments based on the current activity will be remitted to the developer annually. After ten years, the developer will not be entitled to any further use of their advance regardless of whether or not they have used the full amount. The developers' interests in the various tap-in contracts still open at December 31, 2005 will expire in November 2013. At the expiration date of the agreements, any remaining construction advance liability will be recorded as contributions revenue.

Beginning balance	\$264,679
Tap-ins collected and paid to developer in 2005	<u>(25,750)</u>
Ending balance	<u>\$238,929</u>

V. Other information

A. Retirement plan

Defined contribution plan:

The Township has a contributory defined contribution pension plan administered by MFS Financial Services, covering all full-time employees except police officers. Employees are eligible to participate immediately upon full-time status. Ten percent of base wages is contributed to the plan by the Township in accordance with plan document, with an additional five percent required contribution by the employee. Employees also have an option of contributing an additional ten percent. All contributions are immediately vested. Payroll costs of all employees and payroll costs of plan participants amounted to \$2,058,204 and \$708,323, respectively. The Township's policy is to fund pension costs accrued on an annual basis. Pension cost amounted to \$70,832 or 10% of covered payroll for the year. The pension, as established, does not recognize prior service costs as it is based exclusively on current compensation earned by participants.

Defined benefit plan:

Plan description

The Township participates in the Michigan Municipal Employees Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers patrol officers and detectives. The MMERS provides retirement, disability and death benefits to plan members and their beneficiaries. The MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, Michigan 48917.

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

V. Other information – (continued)

A. Retirement plan – (continued)

Defined benefit plan: - (continued)

Funding policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining unit and requires a contribution from the employees of 5 percent wages for patrol officers and detectives.

Annual pension cost

For year ended December 31, 2005, the Township's annual pension cost of \$108,608 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, (b) projected salary increases of 4.5 to 12.9 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 36 years.

Three-year trend information.

	<u>Fiscal year ended December 31:</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Annual pension cost	\$108,608	\$ 96,899	\$ 79,910
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

	<u>Actuarial Valuation as of December 31:</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Actuarial value of assets	\$ 930,324	\$ 720,287	\$ 502,423
Actuarial Accrued Liability (entry age)	1,996,469	1,670,289	1,416,708
Unfunded AAL	1,066,145	950,000	914,285
Funded ratio	46.6%	43.1%	35.5%
Covered payroll	964,294	920,197	791,976
UAAL as a percentage of covered payroll	110.6%	103.2%	115.4%

B. Post-employment benefits

Employees covered by the Michigan Association of Police union contracts retiring under the provisions of the MERS retirement benefit plan shall be eligible for hospital/medical coverage at the Township's expense. To be eligible for the benefit, the employees must attain 25 years of Township service and not be eligible for hospital/medical insurance under any other insurance plan. As of December 31, 2005, there are no retirees eligible for the benefit, so there are no current year costs.

Charter Township of Mundy
Notes to Financial Statements
December 31, 2005

V. Other information – (continued)

B. Post-employment benefits – (continued)

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employees, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009. Management is currently assessing the impact of this new accounting standard on the Township’s financial statement for future reporting periods.

C. Risk management and contingent liabilities

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has purchased commercial insurance for these claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Township participates in various state and federally assisted grant programs. These programs are subject to compliance monitoring by the grantor to ensure grant monies were properly spent. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although, the Township expects such amounts to be immaterial. A Single Audit, which would require that federal grant compliance be tested during the financial statement audit, was not required in 2005 since the Township expended less than \$500,000 in federal funds.

The Township is a defendant in several lawsuits arising principally from various claims. Legal counsel estimates that any potential claims arising against the Township resulting from such litigation will not materially affect the financial statements of the Township.

In accordance with the settlement of a legal claim the Township is committed to construct a road on a property owned by a developer. At year end, the amount of the construction costs that will be incurred by the Township is not known.

D. Restatement of net assets

The net assets at December 31, 2004 for the governmental activities were restated for a change in the recognition of property tax revenue.

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Amount</u>
Net assets – governmental activities	\$12,532,373	\$(2,030,042)	\$10,502,331

The net assets at December 31, 2004 for the business-type activities were restated due to a correction in the amount recognized for capital assets constructed by a developer.

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Amount</u>
Net assets – business-type activities	\$13,752,308	\$ 508,895	\$14,261,203

Required Supplementary Information

**Charter Township of Mundy
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
For the Year Ended December 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes			\$ 2,032,651	
Licenses, permits, and fees			212,577	
Intergovernmental:				
Federal			3,120	
State			895,087	
Charges for services			807,694	
Interest			166,373	
Fines and forfeitures			10,877	
Miscellaneous			409,975	
Total revenues	\$ 4,578,911	\$ 4,578,911	4,538,354	\$ (40,557)
Expenditures:				
Current:				
General government:				
Township hall			1,563,828	
Tax account			343,004	
Other general governmental			181,311	
Public safety:				
Building department			119,135	
Police department			2,010,319	
Fire department			591,180	
Liquor law enforcement			-	
Public service			1,103,068	
Total expenditures	4,962,790	4,962,790	5,911,845	(949,055)
Excess of revenues over (under) expenditures	(383,879)	(383,879)	(1,373,491)	(989,612)
Fund balance - beginning of year	6,269,527	6,269,527	6,269,527	-
Fund balance - end of year	\$ 5,885,648	\$ 5,885,648	\$ 4,896,036	\$ (989,612)

Individual Fund Statement

**Charter Township of Mundy
Agency Funds
Statement of Changes in Assets and Liabilities
For the Year Ended December 31, 2005**

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<u>Current Tax Fund</u>				
Assets				
Cash and cash equivalents	\$ 4,224,168	\$ 17,024,676	\$ 17,329,107	\$ 3,919,737
Liabilities				
Due to other governments	4,224,168	17,024,676	17,329,107	3,919,737
Total liabilities	\$ 4,224,168	\$ 17,024,676	\$ 17,329,107	\$ 3,919,737

March 10, 2006

Township Board
Charter Township of Mundy
Swartz Creek, Michigan

Dear Township Board:

We have recently completed our audit of the financial statements for the Charter Township of Mundy for the year ended December 31, 2005. As a result of our audit, we offer the following observations and comments for your consideration:

Capitalization Policy

We recommend the board officially adopt a capitalization policy for capital asset purchases. The policy should indicate the threshold dollar value of assets to be recorded on the capital asset schedule. Consideration should be given to a dollar level that will result in a capital asset listing that will not be burdensome to track the assets. Per discussion with management, it is anticipated that the Board will adopt a policy in 2006.

Wire Transfer Policy

The Township is utilizing automatic clearing house wire transfers to make payments for certain payroll related liabilities and withholdings. The Township should have a policy authorizing the use of wire transfers to be in full compliance with state law.

Interest income

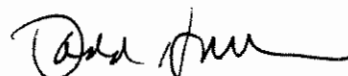
Interest income for certain money market accounts is only recorded on the general ledger once a year. We would recommend that the interest be journalized on a monthly or quarterly basis. This will provide more accurate interim information as to revenues received during the year.

Also, we noted that the tax fund owes the General Fund for interest earnings for the entire year as of December 31, 2005. We would recommend that the interest earnings owed to the General Fund be transferred to the General Fund on a quarterly basis.

We would like to thank the Board and the Township staff for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Sincerely,

Plante & Moran, PLLC



Tadd Harburn, CPA

A member of

